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A USDA-ERS BRIEFING BOOKLET

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Agriculture**

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THE BASIC MECHANISMS OF U.S. FARM POLICY

PART TWO:

Deficiency Payments, Certificates, and PIK & Roll

How They Work

PREFACE

Many kinds of people -- not only farmers but also legislators, congressional staff, lobbyists, new employees of USDA and of the food and fiber industry, and interested public -- come to USDA looking for a quick way to understand farm policy. This series of booklets is addressed to that wide audience and is intended as an introduction to the key concepts.

The booklet is meant to work in the same general way as an informal briefing, such as one given with a series of overhead transparencies. Each page of the booklet contains a single "screen" of illustrative material, accompanied above and below by an "instructor's comments" -- all of which is followed by a question to the reader. The answer to each such question will be found on the next page of the briefing.

Before beginning this booklet, the reader should be familiar with the concepts covered in The Basic Mechanisms of U.S. Farm Policy, Part One, Target, Loan, & Deficiency, MP-1470, U.S. Department of Agriculture, Economic Research Service, May 1989. $5.50. Call toll free: 1-800-999-6779. Or write: ERS-NASS, P.O. Box 1608, Rockville, MD 20850. VISA and MasterCard.

This booklet is based on materials supplied by Keith Collins and Larry Salathe of the Economic Analysis Staff and by various researchers in the Economic Research Service of the U.S. Department of Agriculture. It was prepared by William J. Hudson (The ProExporter Network, Maumee, Ohio), under contract with the Economic Research Service.

The complete array of farm policy mechanisms can appear overwhelming to anyone unfamiliar with the history of U.S. agricultural legislation.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price
Loan (Nonrecourse loan) Rate
Deficiency Payment
Original Deficiency
Reduced (Findley) Loan Rate
Emergency Compensation
Acreage Reduction Program (ARP)
Paid Diversion
Base Acres
Program Yield
Program Production
Basic Commodities
Acreage Conservation Reserve
Conservation Use
Payment Limitation

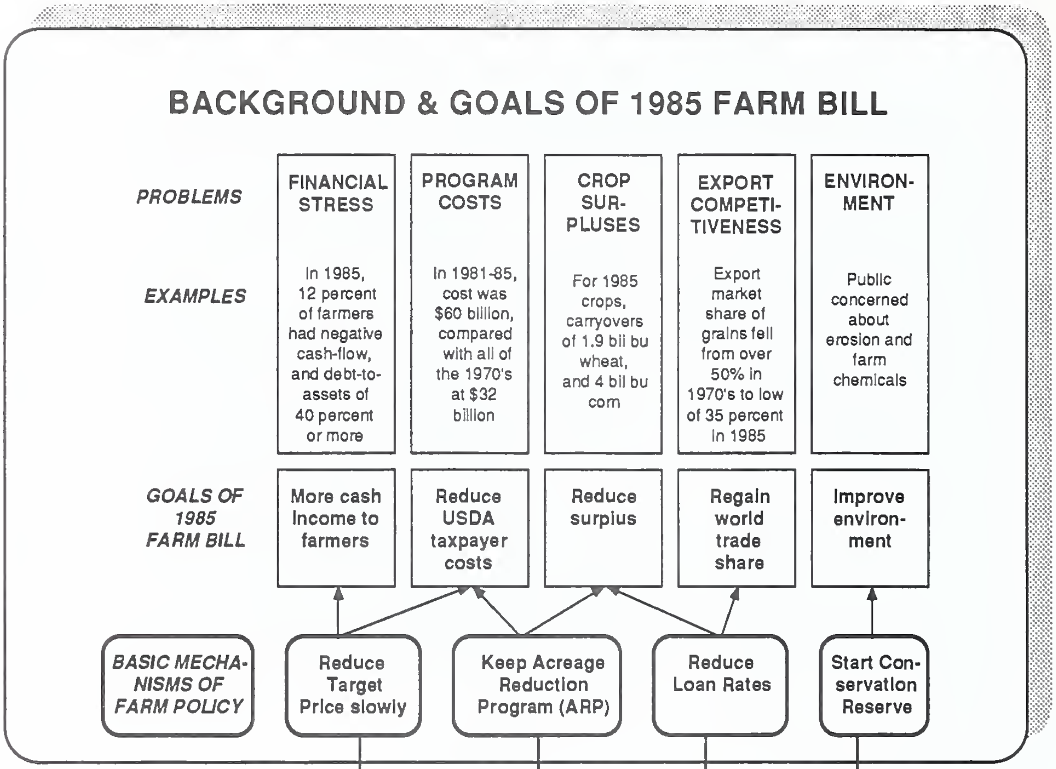
Projected Deficiency
Advance Deficiency
Base Acres & Program Yield
0-92 & 50-92
Commodity Certificate
Posted County Price (PCP)
PIK and Roll
Export Enhancement
Farmer-Owned Reserve (FOR)
Corn (& Wheat) Catalog
Reserve Rollover
Conservation Reserve Program
Disaster Payment
Marketing Loan

Part One of this series of booklets concentrated on the left-hand side of this list.

Part Two explores these seven mechanisms, and Part Three will cover the remaining seven mechanisms on this table.

Let's begin with a few pages of review from Part One.
Review Question: Where do all of these basic mechanisms of U.S. farm policy originate?

Policy mechanisms originate mainly in Congress. But Congress reflects public concern about food, agriculture, and the needs of farmers.



BACKGROUND & GOALS OF 1985 FARM BILL

PROBLEMS	FINANCIAL STRESS	PROGRAM COSTS	CROP SURPLUSES	EXPORT COMPETITIVENESS	ENVIRONMENT
EXAMPLES	In 1985, 12 percent of farmers had negative cash-flow, and debt-to-assets of 40 percent or more	In 1981-85, cost was $60 billion, compared with all of the 1970's at $32 billion	For 1985 crops, carryovers of 1.9 bil bu wheat, and 4 bil bu corn	Export market share of grains fell from over 50% in 1970's to low of 35 percent in 1985	Public concerned about erosion and farm chemicals
GOALS OF 1985 FARM BILL	More cash income to farmers	Reduce USDA taxpayer costs	Reduce surplus	Regain world trade share	Improve environment

BASIC MECHANISMS OF FARM POLICY

- Reduce Target Price slowly
- Keep Acreage Reduction Program (ARP)
- Reduce Loan Rates
- Start Conservation Reserve

The three main mechanisms used in the 1985 Farm Bill were Target Price, Loan Rate, and Acreage Reduction Programs.

The CRP also began under the 1985 Farm Bill.

Review Question: Suppose that the Target Price of corn is $3.03 a bushel, the Market Price is $1.94, and the Loan Rate is $1.82. How much is the Deficiency Payment Rate?

In this case, the Deficiency Payment Rate would be $1.09.

To calculate Deficiency requires two steps, as shown below.

CALCULATING DEFICIENCY PAYMENT RATE
Actual Case

		CORN (1987)
Step 1	Target price	$3.03
	Market price	$1.94
	Difference	$1.09
Step 2	Target price	$3.03
	Loan rate	$1.82
	Difference	$1.21

In this two-step process, the smallest difference becomes the Deficiency Payment Rate, which in this case is $1.09 per bushel.

Review Question: What is the distinction between "Original Deficiency Payment" and "Emergency Compensation" (sometimes called Findley Deficiency)?

For wheat and feedgrains, there are two tiers of Deficiency in the 1985 Farm Bill, the Original and the Findley.

CORN LOAN RATE & FINDLEY LOAN IN 1987

Target Price	$3.03
Basic Loan Rate	$2.28
Original Deficiency Payment (maximum)	$0.75
Reduced (Findley) Loan Rate	$1.82
Emergency Compensation (maximum) (Sometimes called Findley Deficiency)	$0.46

The 1985 Farm Bill permitted the Secretary to set the Loan Rate based on past market prices, but limited to a 5-percent annual drop. For 1987, this "Basic" Rate could be no lower than $2.28. But the Bill gave the Secretary discretion to announce a Rate up to 20 percent lower, the so-called Reduced (Findley) Loan Rate, which was $1.82

The next page reviews the sequence for calculating the both the Original Deficiency and the Emergency Compensation.

CALCULATING ORIGINAL AND FINDLEY DEFICIENCY PAYMENT RATES

Sequence

First compare: Target Price

With: Basic Loan Rate — Market Price (First 5 months of crop year)

Smallest difference becomes: Original Deficiency Payment Rate (Payment made before the remainder below)

Then compare: Basic Loan Rate

With: Reduced (Findley) Loan Rate — Market Price (12-month season average)

Smallest difference becomes: Emergency Compensation Rate (Sometimes called Findley Deficiency. Payment made at end of crop year.)

The next page gives the figures for the maximum Original Deficiency and Findley Deficiency for corn in 1987.

Calculating Deficiency Payment Rates always requires the comparing of rates set by government with rates prevailing in the market, and then selecting the smallest differences.

CORN LOAN RATE & FINDLEY LOAN IN 1987

Target Price	$3.03
Basic Loan Rate	$2.28
Original Deficiency Payment	$0.75
Reduced (Findley) Loan Rate	$1.82
Emergency Compensation (Sometimes called Findley Deficiency)	$0.46
	$1.21

The __maximum__ possible "Total Deficiency Payment Rate" is $1.21 a bushel. But the actual Rate was only $1.09. The actual Rate did not reach the maximum because market price, $1.94, was above the announced Loan Rate ($1.82). The actual Deficiency Payment Rate was $3.03 - $1.94 = $1.09, which was composed of an Original Deficiency Payment of $0.75 and Emergency Compensation of $0.34.

__Question:__ When does the farmer receive these payments?

The Original Deficiency Payment is made several months before the Emergency Compensation (Findley Deficiency). The amount of either payment depends on Market Price.

ORIGINAL AND FINDLEY DEFICIENCY PAYMENTS FOR CORN IN 1987

	Calculation 1 (vs. Loan)	Calculation 2 (vs. Market)
Target Price	$3.03	$3.03
Basic Loan Rate	$2.28	
Market Price (first 5 months of year)		$1.63
Original Deficiency Payment	$0.75	
Basic Loan Rate	$2.28	$2.28
Reduced (Findley) Loan Rate	$1.82	
Market Price (season average)		$1.94
Emergency Compensation (Sometimes called Findley Deficiency)		$0.34

Based on the basic Loan Rate because the average Market Price during the first five months of the crop year was below the basic Loan Rate.

Based on season-average price, which exceeded the Announced Loan Rate.

Question: How does the farmer know in advance what the Market Price will be and whether to participate in the government program, and thus become eligible for a Deficiency Payment?

Market Price cannot be known in advance, so the Farm Bill requires USDA to make projections of Deficiency Payment Rates which can be used by farmers to decide whether to participate in government programs.

PROJECTED DEFICIENCY PAYMENT RATE

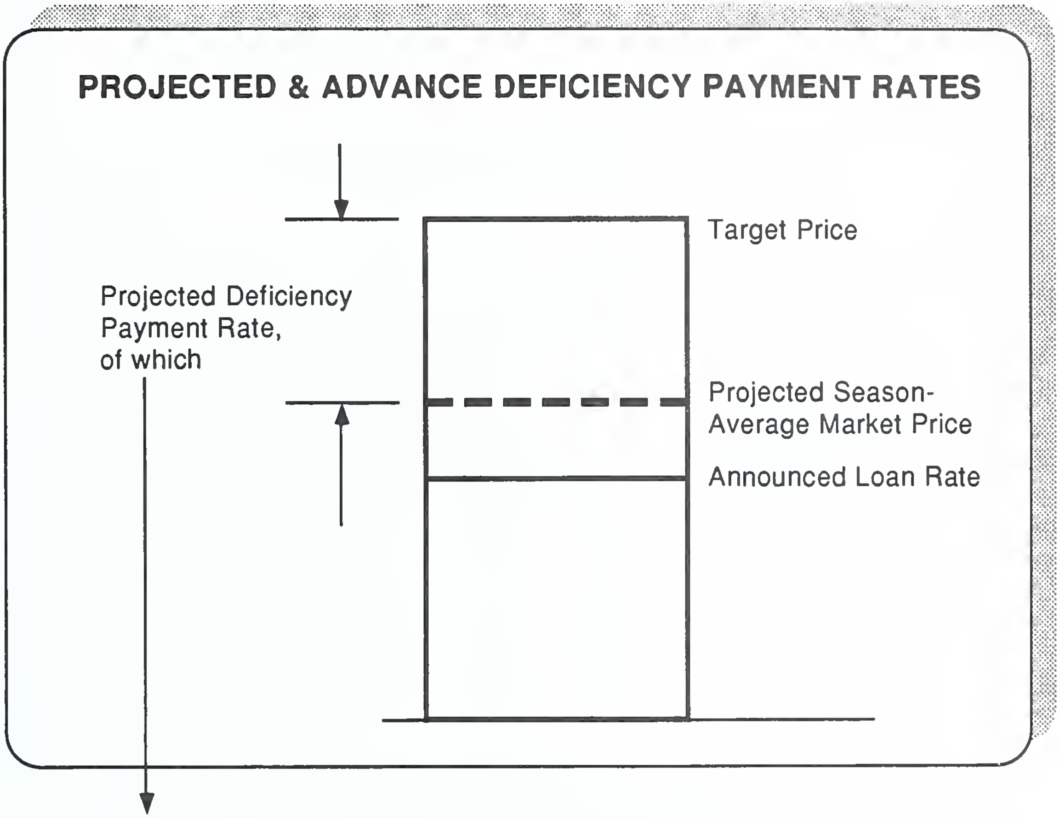
Prior to program signup, in late fall or early winter, USDA announces for each program crop a Projected Deficiency Payment Rate.

The Farm Bill requires that a portion of the Projected Payment be made in advance. This requirement, developed in response to farm financial difficulties of the mid-1980's, is a way to get cash into farmers' hands quickly -- to help avoid financial stress and to lessen credit needs in the spring.

Without the Advance Deficiency, producers must wait until halfway through the crop year for the first part of the payment and until the end of the crop year for the second part.

Question: How much of the Total Deficiency Payment is made in advance?

Between 30 and 50 percent of the Projected Deficiency Rate is paid as the Advance Deficiency, at the discretion of the Secretary of Agriculture.



PROJECTED & ADVANCE DEFICIENCY PAYMENT RATES

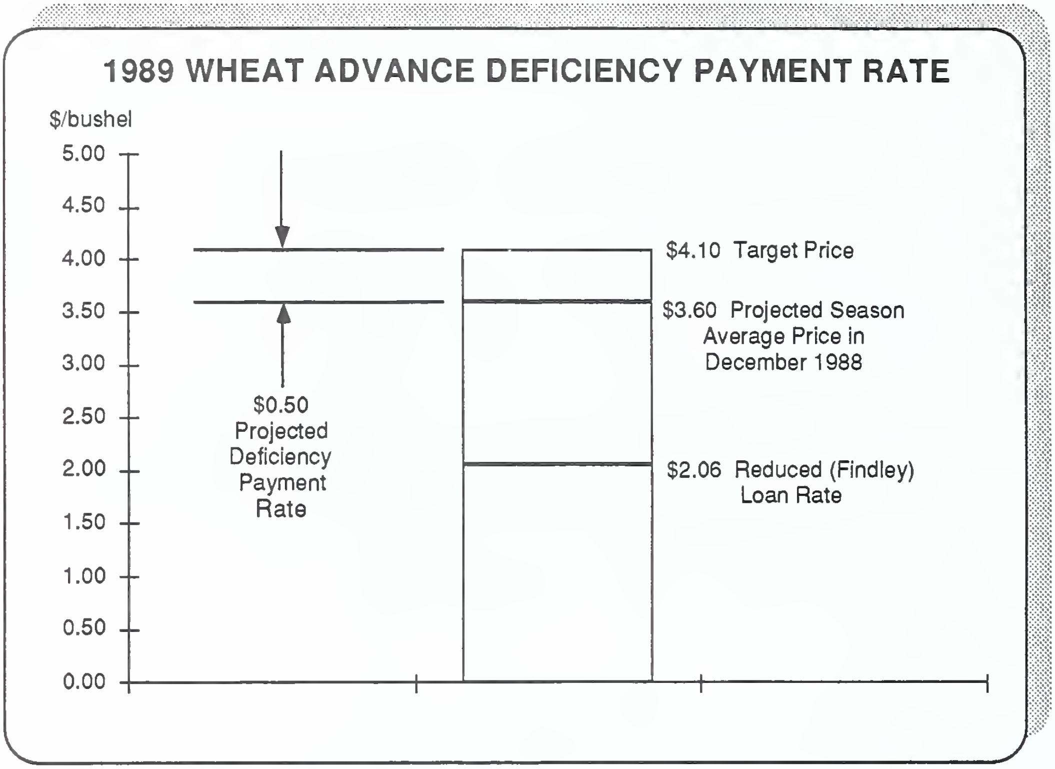
Target Price
Projected Deficiency Payment Rate, of which
Projected Season-Average Market Price
Announced Loan Rate

Advance Deficiency Payment Rate must be:

- *40 to 50 percent of Projected Rate for grains*
- *30 to 50 percent of Projected Rate for cotton and rice*

Question: In 1989, the wheat Target Price was $4.10 per bushel, the announced Loan Rate was $2.06, and the Projected Season-Average Market Price was $3.60. How much was the Advance Deficiency Payment?

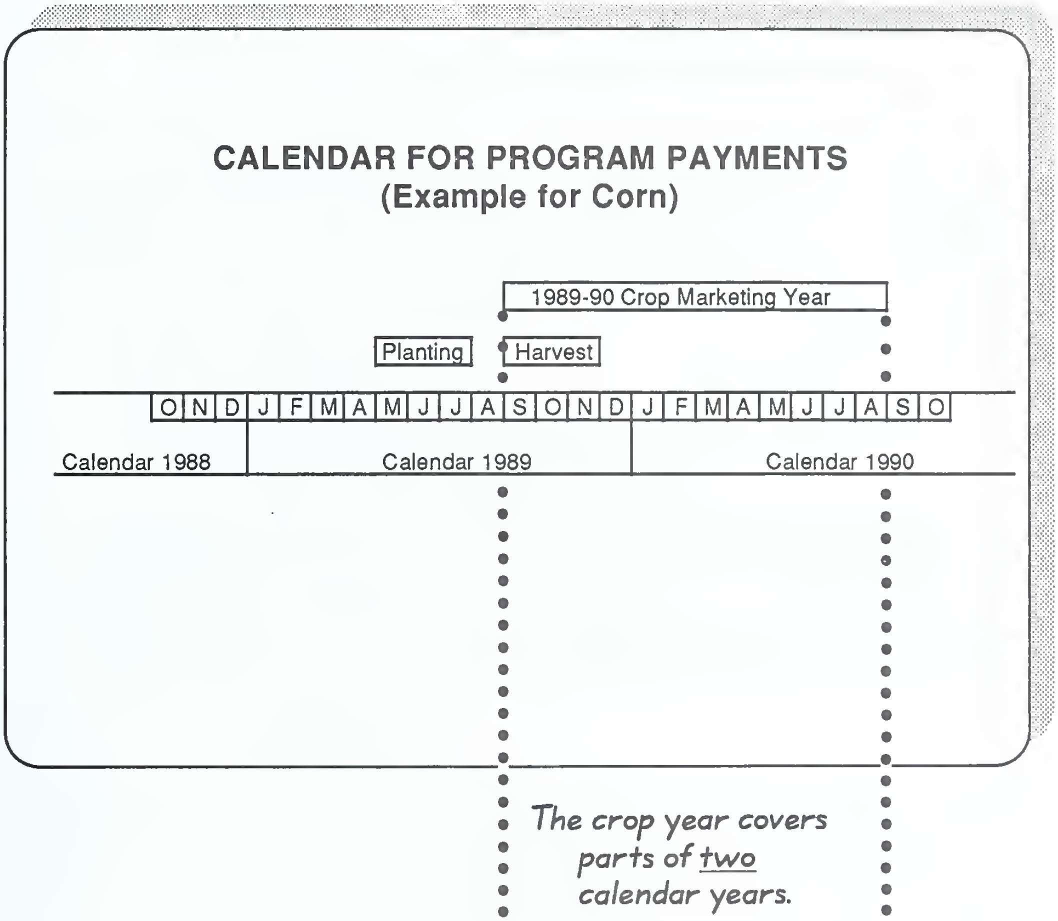
The Projected Deficiency Payment Rate for wheat in this case was $0.50, of which 40 to 50 percent could be paid in advance.



- *The __Advance Deficiency__ Payment Rate was set and paid at 40 percent of Projected, or $0.20 per bushel.*
- *During Spring 1989, however, the President announced an increase in the Advance Payment to 50 percent of Projected, so another 10 percent or $0.05 per bushel was paid.*

__Question:__ The timing of payments depends on each crop's official crop year. When does the official crop year for grains begin, at planting or at harvest?

The crop year, sometimes called the marketing year, begins at harvest and extends 12 months. The following shows the crop year for corn.



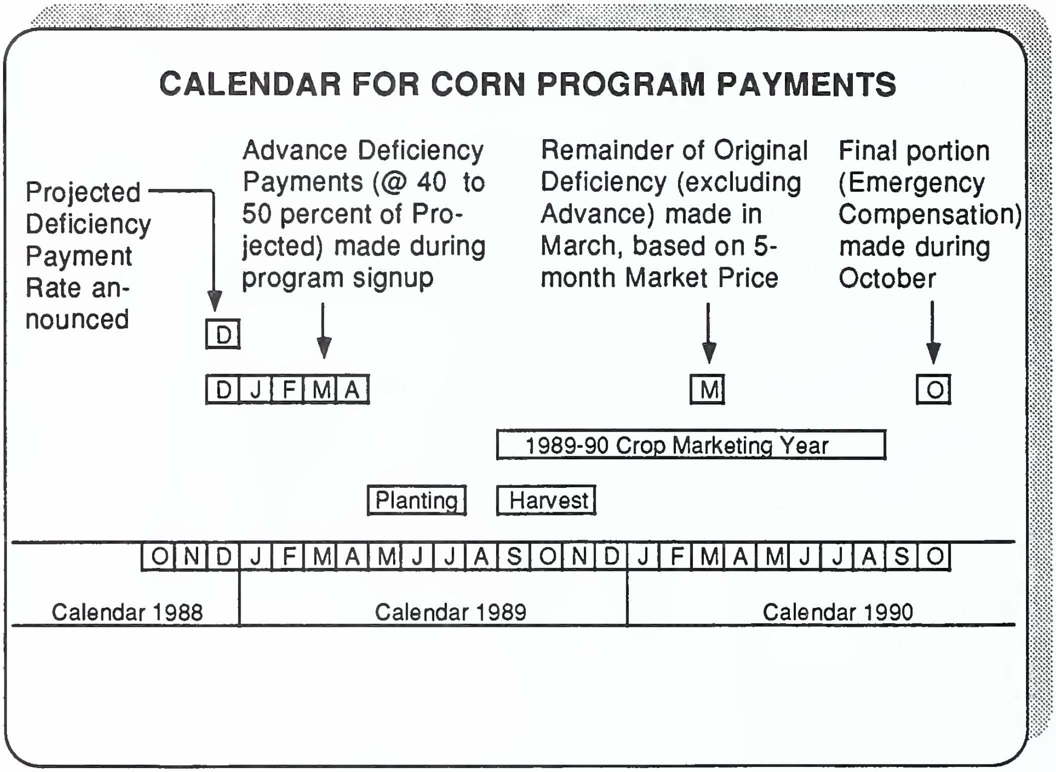
CALENDAR FOR PROGRAM PAYMENTS
(Example for Corn)

1989-90 Crop Marketing Year
Planting
Harvest
O N D J F M A M J J A S O N D J F M A M J J A S O
Calendar 1988
Calendar 1989
Calendar 1990

The crop year covers parts of two calendar years.

__Question:__ In terms of the 24-month period shown above, when are the various parts of Deficiency Payment made?

The Deficiency Payment is made in three parts: (1) Advance, (2) Original less Advance, and (3) Emergency Compensation.

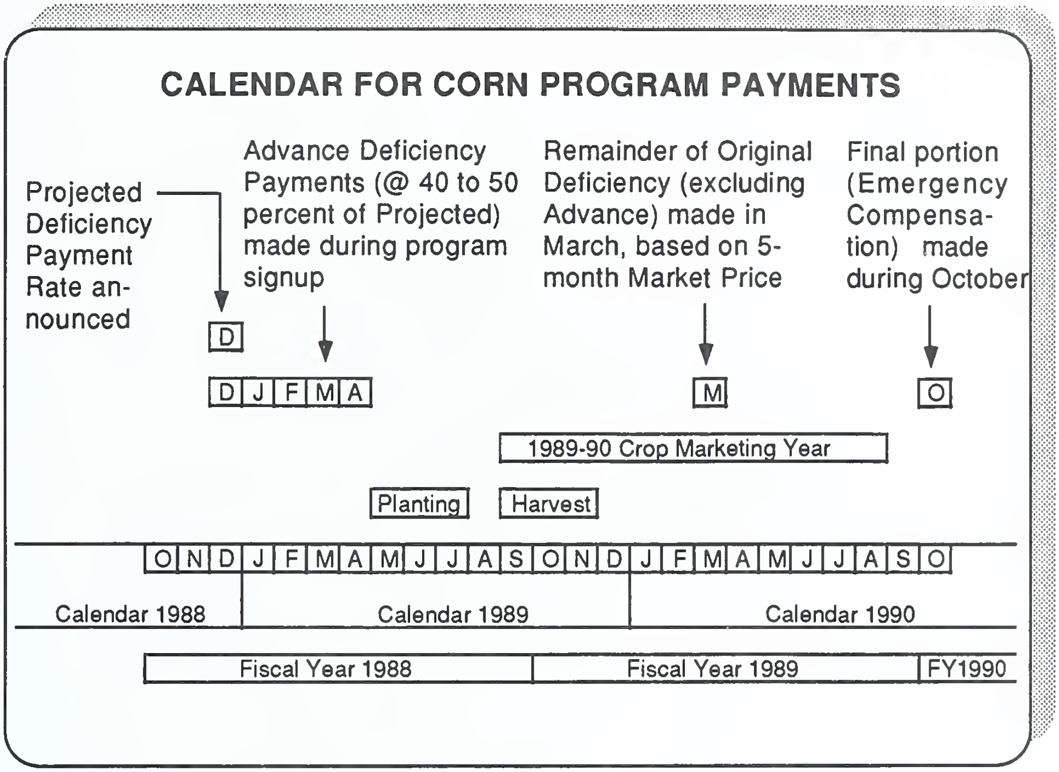


CALENDAR FOR CORN PROGRAM PAYMENTS

Projected Deficiency Payment Rate announced
D
Advance Deficiency Payments (@ 40 to 50 percent of Projected) made during program signup
D J F M A
Remainder of Original Deficiency (excluding Advance) made in March, based on 5-month Market Price
M
Final portion (Emergency Compensation) made during October
O
1989-90 Crop Marketing Year
Planting
Harvest
O N D J F M A M J J A S O N D J F M A M J J A S O
Calendar 1988
Calendar 1989
Calendar 1990

Question: How many government fiscal years are affected by the above payments?

Three fiscal years are involved in the overall schedule of making payments for one crop year.



CALENDAR FOR CORN PROGRAM PAYMENTS

Projected Deficiency Payment Rate announced
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Final portion (Emergency Compensation) made during October
D
D J F M A
M
O
1989-90 Crop Marketing Year
Planting
Harvest
O N D J F M A M J J A S O N D J F M A M J J A S O
Calendar 1988
Calendar 1989
Calendar 1990
Fiscal Year 1988
Fiscal Year 1989
FY1990

A problem for government bookkeeping and for Congress when it wants to reduce farm spending during any fiscal year is that the Deficiency Payment for any single crop year, say 1989-90, is spread across three fiscal years -- FY88, FY89, and FY90. Note: The above characterizes corn and sorghum; wheat, barley and oats are on a May-June crop year, but the timing of payments within that crop year is similar to the pattern above.

Question: The Deficiency Payment Rate is per bushel. How much of the farmer's production does it cover?

Deficiency Payments are not paid on the basis of actual production but on "program production," which is a calculation made as follows from each farm's official Base Acres and Program Yield.

METHOD OF CALCULATING "PROGRAM PRODUCTION"

Base Acres

- Idled Acres (Acreage Conservation Reserve, ACR)

= Permitted Acres

x Program Yield

= Program Production

"Program Production" is the quantity eligible for Deficiency Payment when the farmer plants maximum Permitted Acres.

Question: How are Base Acres and Program Yield determined?

The acreage base for each crop is a 5-year moving average of acres planted to corn and "considered planted" (idled or prevented from being planted due to disasters). Program Yields are official averages frozen in 1985 and have not been adjusted since then.

In the following example, a 20-percent ARP for corn is assumed.

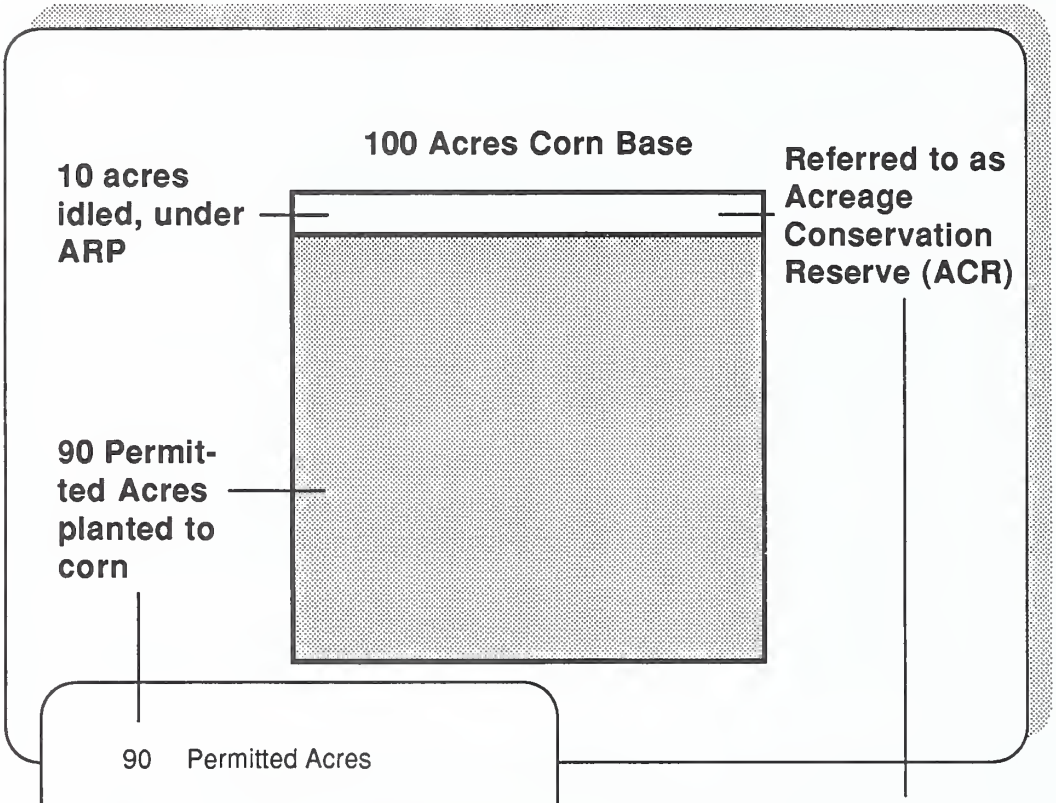
METHOD OF CALCULATING CORN BASE ACRES

	Years						
	1	2	3	4	5	6	7
Acres planted to corn	80	80	80	80	80	64	64
Acres idled (considered planted to corn)	20	20	20	20	20	16	16
Acres planted to soybeans	20	20	20	20	20	40	40
Total corn acres (planted + considered planted)	100	100	100	100	100	80	80
Base acres of corn					100	96	92

In this example, the Base Acres decline because the farmer has elected to shift some corn acres to soybeans in years 6 and 7.

__Question:__ If a participating farmer has corn Base Acres of 100 and if the Acreage Reduction Program (ARP) is 10 percent, then how many Permitted Acres of corn will the farmer have, and on how many acres will the farmer be eligible for Deficiency Payment?

In this case, the farmer must idle 10 acres, which leaves 90 Permitted Acres for planting to corn. The farmer will be eligible for Deficiency Payment on the 90 Permitted Acres.

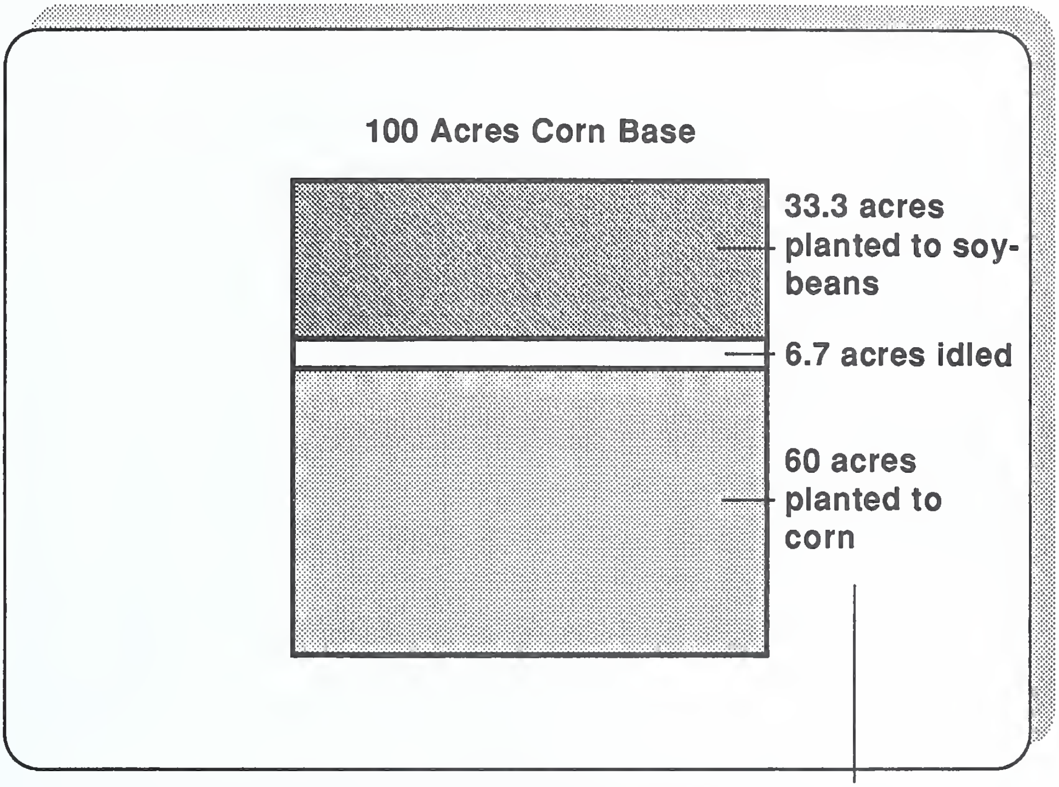

100 Acres Corn Base
10 acres idled, under ARP
Referred to as Acreage Conservation Reserve (ACR)
90 Permitted Acres planted to corn

90	Permitted Acres
x 105	Program Yield (bushels/acre)
=9,450	Program Production (bushels)

ACR land must be put into an approved Conserving Use (CU) that protects the land from weeds, and from wind and water erosion.

Question. What happens to ACR requirements if a participating farmer wishes to plant less than the Permitted Acres?

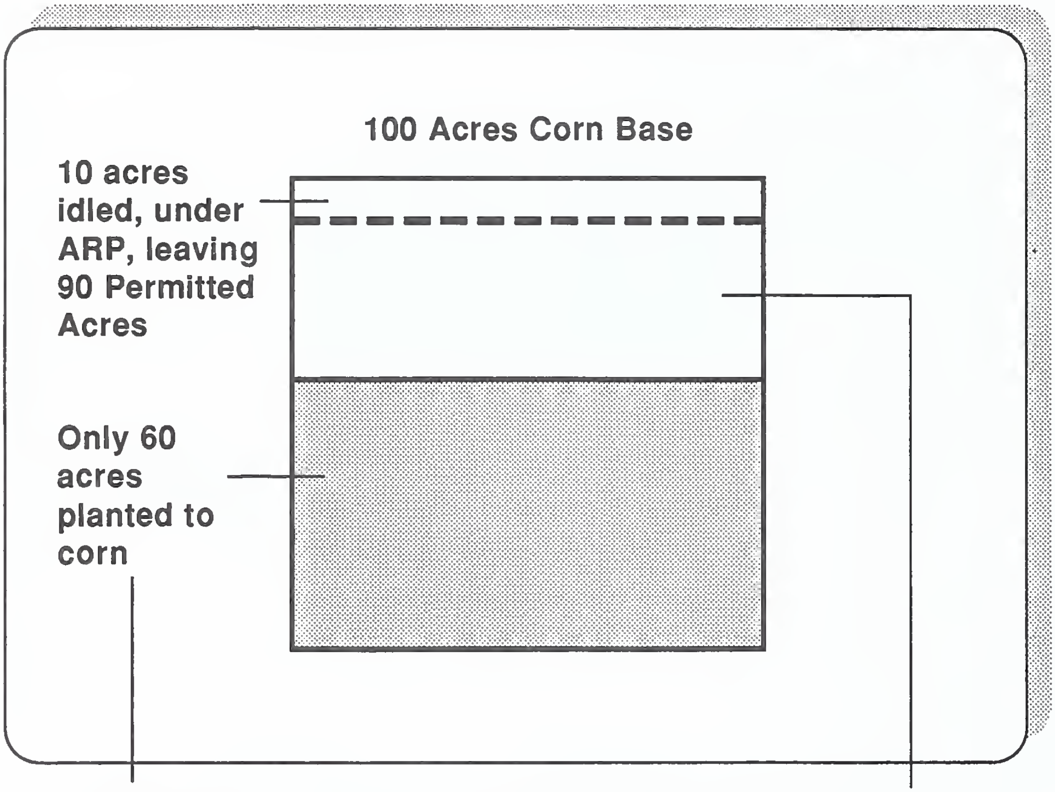
If a farmer plants less than the Permitted Acres, then the ACR (i.e., the minimum acreage required to be idled), is based on the acreage planted to the program crop (corn in this case). Deficiency Payment is also based on acreage planted to the program crop, if the underplanted acreage is planted to a crop other than the program crop.



Under a 10-percent ARP, the ACR is 10/90 (=.1111) times the acreage actually planted to corn, which in the above case is 60 acres. So .1111 x 60 = 6.7 acres for the ACR. The farmer is eligible for a Deficiency Payment on 60 acres in this case.

__Question__. What happens to the Deficiency Payment if a participating farmer plants less than the Permitted Acres and if the underplanted acreage is devoted to a Conserving Use?

If a farmer plants less than the Permitted Acres, Deficiency applies only to the acres actually planted. But if the "underplanted acreage" is put into Conserving Use, the farmer may be eligible for partial Deficiency Payments on this acreage as well.


100 Acres Corn Base
10 acres idled, under ARP, leaving 90 Permitted Acres
Only 60 acres planted to corn

60 acres eligible for regular Deficiency.

"Underplanted Acreage" is 30 acres. If farmer puts this into Conserving Use, then a portion of this idled land also becomes eligible for partial Deficiency Payments.

The next page reviews the acreage terminology discussed in the last few pages.

PROGRAM ACRES TERMINOLOGY REVIEW

Base Acres

Planted Acres	plus	Considered Planted Acres
To be eligible for Deficiency and Loan, plantings cannot be more than Base minus ACR, which is known as Maximum Permitted Acres		Same as ACR or CU When actual planted acres are less than Permitted, the difference is known as Underplanted Acres. If the Underplanted Acres are devoted to CU, then they can be Considered Planted, for purposes of program benefits.

Note: ACR means Acreage Conservation Reserve, which is an amount determined each year by the ARP (Acreage Reduction Program) percentage. CU means Conserving Use.

Question. What is the name for the farm policy mechanism which calculates the partial Deficiency Payment on Underplanted Acreage placed in Conserving Use, and how does it work?

The mechanism for Deficiency Payments in the case when actual plantings are below Permitted Acres is the 0-92 Program. One requirement of 0-92 is that Underplanted Acreage must be devoted to Conserving Use.

DEFICIENCY PAYMENTS IN CORN 0-92 PROGRAM

					Planted Acres		Program Yield		Actual Deficiency Payment Rate		Deficiency Payment
Regular Deficiency					60	x	105	x	$0.60	=	$3,780
	Permitted Acres		0-92 Factor		Planted Acres		Program Yield		Projected Deficiency Payment Rate		
Partial Deficiency	90	x	92%	-	60	x	105	x	$0.60	=	$1,436
Total Payment											$5,216

The producer receives the regular Deficiency Payment on 60 acres and a partial Deficiency on the remainder. The partial Deficiency is based on the Projected Rate on 92 percent of Permitted Acres less Planted Acres.

Question: To what crops does the 0-92 mechanism apply, and what is the program's purpose?

The 0-92 program applies to grains, while the 50-92 program applies to cotton and rice.

The purpose of both programs is to provide flexibility and to lessen the incentive to plant in return for government payments.

0-92 AND 50-92 PROGRAMS

- 0-92 (Grains)
  Producer can devote to Conserving Use (CU) from zero to all of the maximum Permitted Acres under the ARP.

  Producer receives Deficiency in two forms. First, producer receives regular Deficiency on the acreage actually planted to the program crop. Second, producer receives partial Deficiency on part of the remainder -- specifically, on 92 percent of the Permitted Acres less Planted Acres.

- 50-92 (Cotton and Rice)
  Same as 0-92, except that producer must plant the program crop on at least 50 percent of Permitted Acres to be eligible.

Note: The Deficiency Payment Rate for 0-92 and for 50-92 is the Projected Payment Rate, not the actual.

Question: Are all Deficiency Payments made in cash?

No, not all payments are made in cash. Some part of Deficiency Payments (and some other types of payments) may be made with Commodity Certificates.

COMMODITY CERTIFICATES

The Food Security Act of 1985 (the Farm Bill) authorized certain program payments to be made on a noncash basis.

Accordingly, the Commodity Credit Corporation (CCC) issues Commodity Certificates ("Certs"), denominated in a cash amount, backed by the commodities owned by the CCC.

From fiscal years 1986 through 1989, nearly $24 billion in Commodity Certificates have been issued to farmers as part of their direct payments due them, and to exporters under the Export Enhancement Program (EEP) and under other programs administered by the CCC.

Question: How does a recipient of a "Cert" turn it into money?

There are several ways to use Certs, depending on who receives them.

USES OF COMMODITY CERTIFICATES

- A farmer recipient can:
  - -- Sell or transfer Cert to another person (The market for Certs trades at a percent of face value)
  - -- Use Cert to redeem the commodities pledged as collateral for a price support loan
  - -- Wait 5 months and return the Cert to the government for cash
- An exporter recipient can:
  - -- Sell or transfer Cert to another person
  - -- Exchange Cert for CCC-owned commodities

Note: An exporter cannot exchange a Cert for cash from the government. Anyone buying a Cert (a "subsequent holder") also cannot exchange it for cash from the government, but subsequent holders can exchange the Cert for CCC-owned inventory.

Question: Many Certs have been used to pay off loans and redeem collateral, especially when Market Price was at or below the Loan Rate in 1986-87. What is meant by "PIK and Roll"?

The acronym PIK means "Payment-In-Kind," which is what the Commodity Certificates are meant to facilitate. The process of PIK and Roll was used to bring corn out from under Loan without a rise in Market Price and to relieve CCC of excessive inventory and operating costs.

FARMER'S OPTIONS FOR MARKETING CORN
(Example Year 1986-87, with Market Price at or below Loan Rate)

A. Produce corn, sell to market immediately, and sell Certs.

B. Produce corn, put under Loan, pay storage and interest until redeemed, and sell Certs.

C. Produce corn, put under Loan, redeem Loan immediately with Certs, and then sell corn to market(PIK and Roll).

PIK and Roll Option will save the farmer money by avoiding storage costs, plus it will gain the price differential between Loan Rate and the exchange price used by CCC, known as the Posted County Price (PCP), at which the loan is redeemed with Certs. The PCP follows the local market price.

Question: If corn Market Price is $1.55, and is expected to stay at that level, and the Loan Rate is $1.82, should the farmer (a) sell corn to the market or (b) store the corn under loan?

Because of storage costs, both options result in about the same revenue, as if the producer sold corn to the market immediately.

CORN MARKETING OPTIONS A & B

Option	Quantity		Transaction	Proceeds	
A.	Farmer produces		Sells to market @		
	100 bushels	x	$1.55 per bushel	= $155	
B.	Farmer produces		Puts under loan @		
	100 bushels	x	$1.82 per bushel	= $182	
				($27)	Pays 9 months storage cost plus interest
				$155	Net Proceeds

Question: If Posted County Price (PCP) is $155, should the farmer use Option C, PIK and Roll?

If the farmer has Certs, then PIK and Roll will be a better option. The process requires three steps, but these take place almost simultaneously, so that no storage or interest costs are incurred. The corn is put under loan, but immediately "rolled" out via Certs into the market.

CORN MARKETING OPTION C (PIK AND ROLL)

Option	Quantity		Transaction	Proceeds	
C.	Farmer produces		Puts under loan @		
	100 bushels	x	$1.82 per bushel	= $182	Pays no storage or interest
			Repays loan with certificate valued at Posted County Price		
	100 bushels	x	$1.55 per bushel	= ($155)	Gives up Cert
			Sells corn to market		
	100 bushels	x	$1.55 per bushel	= $155	
				$182	Net proceeds

PIK and Roll earns the producer $27 more, in this case, than if the corn were sold immediately to the market. In addition, this mechanism allowed corn to come out from under loan and into the market at export competitive prices (a goal of the 1985 Farm Bill). The amount of such corn, in total, depends on the relationship of PCP to market price. For instance, if PCP is below market price, the producer's proceeds from PIK and Roll are greater, and more PIK and Roll occurs.

All *three marketing options* *for 1986-87 corn are shown on the next page.*

1986-87 CORN MARKETING OPTIONS

Option	Quantity		Transaction		Proceeds	
A.	Farmer produces		Sells to market @			
	100 bushels	x	$1.55 per bushel	=	$155	
B.	Farmer produces		Puts under loan @			
	100 bushels	x	$1.82 per bushel	=	$182	
					($27)	Pays 9 months storage cost plus interest
					$155	Net Proceeds
C.	Farmer produces		Puts under loan @			
	100 bushels	x	$1.82 per bushel	=	$182	Pays no storage or interest
			Repays loan with certificate valued at Posted County Price			
	100 bushels	x	$1.55 per bushel	=	($155)	Gives up Cert
			Sells corn to market			

Question. For which commodities may a Commodity Certificate be redeemed?

The owner of a Cert may redeem it for any commodity pledged as collateral for a nonrecourse loan, or for any commodity owned by the CCC, as long as that commodity has not been committed by CCC to other programs. The dominant route for Cert issuance has been for Deficiency and Diverson Payments. (Note that total redemption is not equal to total issuance, below, because of Certs outstanding.)

COMMODITY CERTIFICATE REDEMPTION BY TYPE OF COMMODITY (FY1986-89)

	Loans	CCC Inventory	Total
		Billion dollars	
Wheat	1.5	2.1	3.6
Corn	12.3	3.9	16.2
Sorghum	.7	.6	1.3
Rice	-	.2	.2
Cotton	1.0	.2	1.2
Other commodities	.4	.3	.7
Total	15.9	7.3	23.2

COMMODITY CERTIFICATE ISSUANCE BY FARM PROGRAM MECHANISMS (FY1986-89)

Deficiency/Diversion Payments	$19.3	Billion
Export Enhancement Program	2.3	
Targeted Export Assistance Program	.3	
Conservation Reserve Program	1.2	
Emergency Feed Program	.1	
Other	.7	
Total	$23.9	Billion

Question: What determines whether a Cert will be redeemed for loans, CCC inventory, or cash?

From a Cert owner's point of view, the option which results in the largest return is the preferred option. The owner calculates the best return according to these two properties of Certs: (1) A Cert is redeemable for loans and CCC inventory at the Posted County Price (PCP); (2) A Cert is redeemable for cash at its face value. Consider the following example:

COMMODITY CERTIFICATE REDEMPTION OPTIONS

Situation: $1,000 Certificate

PCP: $2.50 per bushel

Loan Rate: $1.77 per bushel

Option 1: Redeem 400 bushels under loan ($1,000/$2.50)

Receive $708 (400 @ $1.77)

Option 2: Cash in Certificate

Receive $1,000

In this example, the Cert holder will profit more from cashing the Cert than exchanging it for an outstanding loan. The Cert holder can always sell the Cert, and will benefit even more from the sale when Cert buyers are offering a premium to the Cert's face value.

Question: Are Certs used in the Export Enhancement Program (EEP) and the Farmer-Owned Reserve (FOR)?

Yes. Commodity Certificates are given to exporters under the Export Enhancement Program (EEP) and can be redeemed for grain in the Farmer-Owned Reserve (FOR). How this works in both cases will be covered in Part Three of this series of booklets.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price
Loan (Nonrecourse loan) Rate
Deficiency Payment
Original Deficiency
Reduced (Findley) Loan Rate
Emergency Compensation
Acreage Reduction Program (ARP)
Paid Diversion
Base Acres
Program Yield
Program Production
Basic Commodities
Acreage Conservation Reserve
Conservation Use
Payment Limitation

Projected Deficiency
AdvanceDeficiency
Base Acres & Program Yield
0-92 & 50-92
Commodity Certificate
Posted County Price (PCP)
PIK and Roll

Export Enhancement
Farmer-Owned Reserve (FOR)
Corn (& Wheat) Catalog
Reserve Rollover
Conservation Reserve Program
Disaster Payment
Marketing Loan

Part One of this series of booklets concentrated on the left-hand side of this list, and Part Two on the seven mechanisms at top right.

Part Three will cover the remaining seven mechanisms on this table.

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